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Supreme Court, U.S.
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No. 02-489

IN THE
SUPREME COURT OF THE UNITED STATES

JARROW FORMULAS, INC.

Petitioner,

v.

NUTRITION NOW, INC.

Respondent.

On Petition for a Writ of Certiorari to the United State Court of Appeals for the Ninth Circuit

PETITIONER'S REPLY BRIEF

Of Counsel:

G. KENDRICK MACDOWELL
MATTHEW F. STOWE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, D.C. 20037
(202) 457-6552

JAMES PROCHNOW*
PATTON BOGGS LLP
1660 Lincoln Street
Suite 1900
Denver, CO 80264
(303) 830-1776

*Counsel of Record

Counsel for Petitioner
Jarrow Formulas, Inc.

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PETITIONER'S REPLY BRIEF

The Brief in Opposition attempts to mask the existence of a clear and deep split in the circuits by (1) ignoring any distinction between trademark infringement, false advertising, and mislabeling claims under the Lanham Act, and thus concluding that the issue is settled by ancient precedent dealing with intellectual property disputes, (2) ignoring the clear Fourth Circuit holding that laches is no defense to a claim for prospective injunctive relief, instead mischaracterizing dicta from century-old cases to conclude that the Fourth Circuit would allow such a defense, and (3) characterizing the split between the remaining Courts of Appeals over the manner in which laches may apply as a mere dispute over semantics, when in fact different outcomes arise under the same set of facts within these Circuits. A careful reading of the caselaw of this Court and the Circuit Courts reveals a clear split between the Fourth Circuit, the Sixth and Third Circuits, and the Second, Seventh, and Ninth Circuits over whether, and under what circumstances, laches may be used as a defense to claims for prospective injunctive relief for false advertising and mislabeling claims arising under the Lanham Act.

Respondent also urges that the public interest is adequately protected by the ruling below, simply because there is no direct threat to the public health posed by its product. Respondent cites the fact that customers have been satisfied with its product, and the fact that the FDA and FTC have not started regulatory enforcement actions against Nutrition Now. If customers indeed have not complained about PB8, lacking laboratories, they would have no method for determining whether the product contains the ingredients listed on the label. If some PB8 customers believe that this placebo is effective, it is precisely these duped customers that need protection from PB8's false claims. Nor can the FTC and FDA standing alone adequately protect consumers. With vast numbers of new nutritional supplements entering the

market each year – many from fly-by-night organizations that appear for a while, market a product, then disappear, only to reappear again months later in a different location with a new name and new product – these organizations can barely find the resources to attempt to regulate products that pose a direct threat to the public health. Those products that are not inherently harmful, yet simply do not contain the ingredients they purport to contain, necessarily slip beneath their notice.

I. THIS COURT NEVER HELD THAT LACHES MAY BAR CLAIMS FOR INJUNCTIVE RELIEF FOR FALSE ADVERTISING OR MISLABELING UNDER THE LANHAM ACT.

Petitioner agrees that the Supreme Court precedent relied on by the Respondent reflects the possibility of a laches defense to claims for trademark infringement. However, the Respondent's attempts to rely on this precedent to insinuate that this Court has already addressed the Questions Presented ignores the important differences between trademark claims and false advertising or mislabeling claims under the Lanham Act. As Petitioner has explained, laches rules that may make sense in the context of intellectual property have been imported wholesale, and without significant thought, into the entirely different context of product mislabeling, where they are injurious to the public interest. Cert. Petn. at 10-17.

For this reason, while Respondent would have this Court view the case through the lens of intellectual property, urging that this Court has already held that laches may be a defense to claims for prospective injunctive relief, *see* Opp. Br. at 12-14, this Court should see through that ruse. There is simply no issue of trademark infringement in this case. The two antiquated cases cited by Respondent consequently have only marginal bearing on either of the questions presented.

This case involves claims of false advertising and mislabeling. While those kinds of claims may be brought under the Lanham Act, just like trademark infringement claims, this does not mean that all of trademark law suddenly

applies to such claims simply because both types of claims are governed by the same Act. This Court has noted that unfair competition claims may be subject to different rules than trademark claims, in one of the cases relied on by Respondent, *Hanover Star Milling Company* v. *D.D. Metcalf*, 240 U.S. 403 (1916). In that case, the Court denied an injunction against an infringing use, not because the defendant "expended money and efforts to build its trade," Opp. Br. at 3, but because the two distributors served different geographic regions, the defendant had not "pass[ed] off goods of his manufacture as being the goods of the owner of that mark." *Id.* at 412. In other words, there was no likelihood of confusion between the two products, a prerequisite of trademark infringement. *See id.* at 415-416.

Prior to reaching its holding in that case, this Court drew an important distinction between intellectual property and false advertising. As the Court explained, "[h]ere the bill [of complaint] is rested upon alleged trademark infringement, pure and simple, and no question of unfair competition is involved." *Id.* at 412. The very rationale underlying the possibility of laches in that case was, according to the Court, the unique nature of trademark infringement claims. As this Court explained:

> It results from the general principles thus far discussed that trademark rights, *like others that rest in user*, may be lost by abandonment, nonuse, laches, or acquiescence.... As to laches and acquiescence, it has been repeatedly held, in cases where defendants acted fraudulently or with knowledge of plaintiffs' rights, that relief by injunction would be accorded. . . .

Id. at 418-19 (emphasis added).

Obviously, then, the Court discussed the possibility of laches only within the context of trademark rights.

Furthermore, this Court explained that the reason laches was applicable was because trademark rights were user-based rights (*i.e.*, the trademark owner is the one who benefits from the right). In contrast, the right to be free of false advertising lies not in a competing distributor, but instead with the consuming public. A competing distributor has an economic incentive to bring suit, to be sure, and it is this very incentive that the Lanham Act relies on to encourage individuals with sufficient resources to sue a competitor who advertises falsely, in order protect the public interest. Consequently, the distinction between trademark infringement and other forms of unfair competition (such as false advertising or mislabeling) drawn by the Court in *Hanover Star Milling* provides support for a ruling that laches applies to trademark infringement claims, but not false advertising or mislabeling.

Furthermore, intellectual property, false advertising, and mislabeling are fundamentally different claims and generally governed by divergent bodies of law. With respect to intellectual property, courts have long observed that a trademark is a form of state-created property right, which provides protection similar to that of a state-created monopoly. While this monopoly-like protection is granted by the state for an important purpose – generally to encourage innovation and the development of business goodwill – the protection itself is an anathema to a market economy, and it is unsurprising that relatively strict legal rules have been crafted with respect to determining when that monopoly has ended. Strict applications of laches does not, therefore, conflict as severely with the legal rules applicable to intellectual property as it does with the legal rules relating to other forms of unfair competition.

With respect to false advertising, there is no advantage in terms of innovation that comes from allowing someone to advertise a product falsely – indeed, allowing a distributor to falsely advertise or label a product actually discourages innovation and the development of business goodwill.

Rather than invest money in developing a probiotic product that is actually shelf stable and which contains eight active strains of bacteria, Nutrition Now can reap all of the benefits of such an innovation merely by falsely claiming on PB8's label that it has done so. And any other unscrupulous product distributor could do likewise. It is unsurprising, then, that this Court has not yet imported the discussion of laches in *United Drug* and *Hanover Star Milling* from the trademark infringement context to the false advertising or mislabeling context.[1] As a result, the split described in the petition for certiorari has developed in the lower courts. *See* Petn. for Cert. at 10-21.

II. THE FOURTH CIRCUIT DOES NOT PERMIT LACHES TO BAR INJUNCTIVE RELIEF UNDER THE LANHAM ACT.

Respondent relies on *Skippy, Inc.* v. *CPC International*, 674 F.2d 209 (4th Cir. 1982), for the proposition that laches is available as a defense in the Fourth Circuit to false advertising claims seeking prospective injunctive relief. That case does not support any such proposition for several independent reasons. First, Skippy involved only a claim of trademark infringement, not false advertising. Second, the claim at issue in *Skippy* (which the Court found to be barred by laches) was one for past damages, not prospective injunctive relief. *See Skippy*, 674 F.2d at 212. It is well settled that laches may bar claims of past damages, since the public interest is not harmed by the absence of such damages so long as the public is protected from future misconduct.

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[1] Nor did this Court, even in dicta, purport to rule that laches applied to false advertising or mislabeling cases under the Lanham Act in *San Francisco Arts & Athletics, Inc.* v. *United States Olympic Committee*, 483 U.S. 522, 531 (1987). When this Court stated in a footnote that "[t]he user may, however, raise traditional equitable defenses, such as laches," it was clearly referring only to the USOC's trademark claim. *Id.*

Consequently, the Court's discussion of the applicability of laches to injunctive relief, *viz*, "[w]hile the availability of laches as a defense to claims for injunctive relief may be limited when the defendant is guilty of bad faith infringement . . . laches will bar a claim for bad faith infringement," was dicta in the purest sense used to set up the court's holding relating to a claim for damages. *Id.* Any broader holding would have been beyond the power of the court in that case.[2]

Nor did the Fourth Circuit hold that laches was available as a defense to false advertising or mislabeling claims in *Sara Lee Corporation* v. *Kayser-Roth Corporation*, 81 F.3d 455 (4th Cir. 1996). Again, *Sara Lee* was a trademark infringement case, and considerations regarding whether laches might apply to a claim for mislabeling or false advertising differ. In any event, in that case the Court held that the manufacturer's claim was NOT barred by laches. Its statements regarding instances in which laches might be available in light of a claim for prospective injunctive relief, even with respect to trademark infringement claims, were thus *dicta*. *See id.* at 461.

This reading of *Skippy* and *Sara Lee* is confirmed by the Fourth Circuit's decision in *Lyons Partnership* v. *Morris Costumes, Inc.*, 243 F.3d 789 (4th Cir. 2001). In that case, the Fourth Circuit reversed a district court ruling that the plaintiffs claims were time-barred and denied any laches defense, thus expressly holding that laches could pose no bar to prospective injunctive relief under the Lanham Act, even in the context of trademark infringement (much less in advertising or mislabeling) The court plainly stated:

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[2] If the *Skippy* court intended, as Respondent suggests (pp. 16-17), to sweep the entirety of laches law into all Lanham Act claims, it would surely have engaged in a more extended discussion, as confirmed by the breadth of discourse in such opinions as *Hot Wax* and *Danjaq*.

> If the claim is one for injunctive relief, *laches would not apply*. A prospective injunction is entered only on the basis of current, ongoing conduct that threatens future harm. Inherently, such conduct cannot be so remote in time as to justify the application of the doctrine of laches.

Id. at 799 (emphasis added). In pronouncing that laches "would not apply" "[i]f the claim is one for injunctive relief," the *Lyons* court cited to *Sara Lee*, something it could hardly have done if the court believed it had held that "laches could apply" to prospective injunctive claims in that earlier case.

Respondent attempts to distinguish *Lyons* by arguing that in *Lyons*, there was no evidence that the Defendant had been "prejudiced" by the plaintiff's delay in bringing suit. Rather than being a grounds for distinction, this is simply unsurprising. Because laches is unavailable as a defense in the Fourth Circuit – the *Lyons* court could not have been clearer on this point – the court had no need to examine whether the Defendants had invested a significant amount of money in marketing the infringing Barney costumes at issue in that case. Only a court in the Seventh or Ninth Circuit would ask such a question – as Respondent reveals by citing as frequently to the Ninth Circuit decision in *Danjaq* as *Lyons* itself in discussing the case. *See* Opp. Br. at 19-20. The *Lyons* court said the plaintiff's claim "*inherently* cannot be so remote" as to allow for laches. *Lyons Partnership*, 243 F.3d at 799 (emphasis added). Respondent's attempts to re-write that language to read that the plaintiff's conduct "caused no prejudice to the defendant" is simply contrary to fact. *See id.* For this reason, the Fourth Circuit stands firmly split with the Seventh and Ninth Circuits regarding whether laches applies to claims for prospective relief.

III. THE REMAINING CIRCUITS DISAGREE AS TO THE PROPER TEST FOR DETERMINING WHETHER LACHES APPLIES.

Respondent also ignores the differences in the laches tests used by the Seventh and Ninth Circuits,[3] on the one hand, and Third and Sixth Circuits, on the other. What Respondent characterizes as mere "permutations in terminology" are, in fact, outcome-determinative differences in the tests.

Respondent argues that "[w]hat petitioner calls a split authority is nothing more than the use of variant terminology by the Courts to describe the same principles that they universally apply." Opp. Br. at 21. This is untrue, and nothing in the remainder of the brief refutes Petitioner's argument that the Seventh and Ninth Circuits allow laches to bar claims for prospective injunctive relief for mislabeling and false advertising by focusing on the defendant's marketing conduct, whereas the Third[4] and Sixth Circuits

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[3] In *Conopco, Inc.*, v. *Campbell Soup Co.*, 95 F.3d 187, 191-92 (2nd Cir. 1996), the Second Circuit also applied laches to bar injunctive relief in a false advertising case, using an understanding of prejudice encompassing the defendant's marketing investments. But placing the Second Circuit with the Seventh and Ninth only serves to deepen the lower court split on these critical issues and increases the need for review by this Court.

[4] While Respondent argues that *Anheuser-Busch, Inc.* v. *Du Bois Brewing Co.*, 175 F.2d 370 (3rd Circuit 1949), stands for the proposition that the Third Circuit would impose laches where prejudice has been created by "defendant's advertising defenses and local good will," *see* Opp. Br. at 16 n. 11, that Court actually rested its holding on the passage of time. Noting that "we need not rest our decision upon the time factor alone," it went on to discuss the prejudice that had been posed *to the defendant's ability to mount a legal defense*. 175 F.2d at 374. Consequently, it is in complete accord with *University of Pittsburg*. Nor is *Sobosle* v. *United States Steel Corp.*, 359 F.2d 7 (3rd Cir. 1966), to the contrary, for the Defendant's prejudice therein was not caused by its chosen marketing investments, and that case did not involve the Lanham Act in any event.

focus only on the plaintiffs conduct, and whether the delay has been so incredibly long as to constitute a virtual abandonment of right. *See* Cert. Petn. at 18-21. These are outcome-determinative differences, not distinctions based on mere semantics. If Jarrow had brought suit in the Third or Sixth Circuits, his delay would not have been so long as to merit the application of laches under *University of Pittsburgh*, v. *Champion Products, Inc.*, 686 F.2d 1040 (3rd Cir. 1982), or *Kellogg Company* v. *Exxon Corp.*, 209 F.3d 562 (6th Cir. 2000), because seven years is not so long as to constitute a virtual abandonment of right, and because there has been no prejudice to Nutrition Now's ability to mount a legal defense. In the court below, however, or in Second or Seventh Circuits, the defendant's decision to invest money in mislabeling its products suddenly insulates it from suit. Consequently, a court's decision to focus on the plaintiff's conduct or the defendant's, and how much time must pass before laches ought be invoked, simply matters, and in many cases will be outcome-determinative.

Respondent also argues that Jarrow is mistaken in noting that there is a difference of opinion as to whether economic injury caused by a delay may constitute prejudice for laches purposes. *See* Opp. Br. at 15, n11. That the Second, Seventh, and Ninth circuits believe that economic injury may constitute prejudice is undisputed, since this forms one-half of the split. Respondent ignores the Fifth circuit authority and treatises cited in the petitioner for Certiorari at page 13, footnote 7. Respondent also urges that the Fourth Circuit falls within the group that recognizes economic injury as a form of prejudice based on Respondent's reading of a case from 1918; this reading is obviously incorrect given the Circuit's pronouncement last year that laches is not a defense to claims for prospective injunctive relief at all.

IV. THE DECISION BELOW FAILS TO PROTECT THE PUBLIC INTEREST.

Respondent argues that the public's interest is adequately protected by the decision below, because, under *Hot Wax*, the public has no real interest in truthful advertising or accurate product labeling. *Hot Wax* is simply incorrect to the extent it supports this ludicrous proposition.

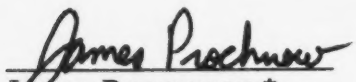
Consumers suffer two very important types of injuries resulting from mislabeling and false advertising. First, there is the direct economic injury, in the form of wasted money, that comes from purchasing a "dead" product. Second, consumers are injured to the extent they purchase these products as a substitute for other treatments that may offer them genuine health benefits. So, for example, purchasers of PB8 may forgo (1) purchasing a properly refrigerated, active LAB product that contains more than one form of bacteria, or (2) making lifestyle changes, such as changes to diet, that can affect the bacteria working in the body.

Courts have recognized these two types of harms as serious and crafted legal rules accordingly. For example, in the context of comparative advertising claims seeking injunctive relief, it is well established that there is a presumption of irreparable harm caused by a distributor making false of misleading claims. *See, e.g., McNeilab, Inc.* v. *American Home Prods. Corp.*, 848 F.2d 34, 38 (2nd Cir. 1988); *Valu Eng'g* v. *Nolu Plastics, Inc.*, 732 F. Supp. 1024, 1025 (N.D. Cal. 1990). How can courts conclude that false advertising causes irreparable injury in one context, while in another conclude the public has no interest in remaining free of false advertising? The inconsistency awaits this Court's resolution.

CONCLUSION

For the foregoing reasons, a writ of certiorari should issue to review the judgment of the United States Court of Appeals for the Ninth Circuit.

Respectfully submitted,



JAMES PROCHNOW*
PATTON BOGGS LLP
1660 Lincoln Street
Suite 1900
Denver, CO 80264
(303) 830-1776

Of Counsel:

G. KENDRICK MACDOWELL
MATTHEW F. STOWE
PATTON BOGGS LLP
2550 M Street, N.W.
Washington, D.C. 20037
(202) 457-6552

Counsel for Petitioners

*Counsel of Record

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